

IRS News Release

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IRS Warns of Questionable Deductions for Donated Vehicles

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WASHINGTON - Internal Revenue Service officials announced today that the IRS will not recognize certain deductions that taxpayers may be claiming relating to donated vehicles sold at auction.

IRS officials took this step after becoming aware of questionable practices that have surfaced recently. Some charities have sold donated vehicles at auction and claimed that the sales are to needy individuals at prices significantly below fair market value. By doing so, these charities have claimed that the sales trigger an exception to the general rule that the deduction allowed to the donor is limited to the proceeds from the charity's sale.

The IRS' position is that vehicles sold at auction are not sold at prices significantly below fair market value. Therefore, the IRS will not treat vehicles sold at auction as qualifying for the exception for sales to needy individuals at prices below fair market value.

If a charity sells a donated vehicle at auction, the IRS will not accept as substantiation an acknowledgment from the charity stating that the vehicle is to be transferred to a needy individual for significantly below fair market value (Box 5b on IRS Form 1098-C). In such cases, the donor may claim a deduction of more than \$500 only to the extent that the gross proceeds from the sale exceed that amount and the donor substantiates the contribution with an acknowledgment from the charity that indicates the gross proceeds from the sale (Box 4c on IRS Form 1098-C).

The rules for determining the amount that a donor may deduct for a charitable contribution of a qualified vehicle, including an automobile, with a claimed value of more than \$500 changed at the beginning of 2005 as a result of the American Jobs Creation Act of 2004. In general, that Act limits a donor's deduction to the amount of the gross proceeds from the charity's sale of the vehicle.

Under an exception to this general rule, a donor may be eligible to claim a fair market value deduction if the vehicle is sold at a price significantly below fair market value to a needy individual, in direct furtherance of a charitable purpose of the recipient organization of relieving the poor and distressed or the underprivileged who are in need of a means of transportation. In this case, the charity provides to the donor an acknowledgment indicating that the donor may claim a fair market value deduction for the vehicle.

Because this exception does not apply to sales at auction, a charity may be subject to penalties under sections 6701 and 6720 of the Internal Revenue Code if the charity sells

a donated vehicle at auction and provides to the donor an acknowledgment that indicates anything other than the deduction may not exceed the gross proceeds from the sale.